

AUDIT COMMITTEE

AGENDA

Board of Fire and Police Pension Commissioners

**Robert von Voigt, Chair
Corinne Tapia, Vice Chair
George Aliano
Cielo Castro**

**April 16, 2015
8:30 a.m.**

**Los Angeles Times Building
202 W. First Street, Suite 500
Los Angeles, CA 90012**

An opportunity for the public to address the Board or Committee about any item on today's agenda for which there has been no previous opportunity for public comment will be provided before or during consideration of the item. Members of the public who wish to speak on any item on today's agenda are requested to complete a speaker card for each item they wish to address, and present the completed card(s) to the commission executive assistant. Speaker cards are available at the commission executive assistant's desk.

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Board or applicable Committee of the Board in advance of their meetings may be viewed at the office of the Los Angeles Fire and Police Pension System (LAFPP), located at 360 East 2nd Street, 4th Floor, Los Angeles, California 90012, or by clicking on LAFPP's website at www.lafpp.com, or at the scheduled meeting. Non-exempt writings that are distributed to the Board or Committee at a scheduled meeting may be viewed at that meeting. In addition, if you would like a copy of any record related to an item on the agenda, please contact the commission executive assistant, at (213) 978-4555 or by e-mail at barbara.nobregas@lafpp.com.

Sign language interpreters, communication access real-time transcription, assistive listening devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing sign language interpreters, five or more business days notice is strongly recommended. For additional information, please contact the Department of Fire and Police Pensions, (213) 978-4545 voice or (213) 978-4455 TDD.

1. [SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE UNITED FIREFIGHTERS OF LOS ANGELES CITY; AND POSSIBLE COMMITTEE ACTION](#)
2. [SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE LOS ANGELES POLICE PROTECTIVE LEAGUE; AND POSSIBLE COMMITTEE ACTION](#)
3. [CONTRACT AMENDMENT WITH BROWN ARMSTRONG ACCOUNTANCY CORPORATION FOR FINANCIAL AUDIT SERVICES; AND POSSIBLE COMMITTEE ACTION](#)
4. GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

SPECIAL MEETING

AGENDA

Board of Fire and Police Pension Commissioners

April 16, 2015

8:30 a.m.

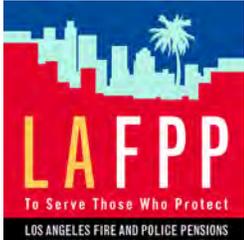
**Los Angeles Times Building
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1. **SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE UNITED FIREFIGHTERS OF LOS ANGELES CITY; AND POSSIBLE COMMITTEE ACTION**
2. **SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE LOS ANGELES POLICE PROTECTIVE LEAGUE; AND POSSIBLE COMMITTEE ACTION**
3. **CONTRACT AMENDMENT WITH BROWN ARMSTRONG ACCOUNTANCY CORPORATION FOR FINANCIAL AUDIT SERVICES; AND POSSIBLE COMMITTEE ACTION**
4. **GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION**



DEPARTMENT OF FIRE AND POLICE PENSIONS

360 East Second Street, Suite 400
Los Angeles, CA 90012
(213) 978-4545

REPORT TO THE AUDIT COMMITTEE

DATE: APRIL 16, 2015 **ITEM:** 1

FROM: RAYMOND P. CIRANNA, GENERAL MANAGER

SUBJECT: SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE UNITED FIREFIGHTERS OF LOS ANGELES CITY; AND POSSIBLE COMMITTEE ACTION

RECOMMENDATIONS

That the Audit Committee:

1. Review the Subsidy Program Audit – Health Plans Administered by the United Firefighters of Los Angeles City (UFLAC), and;
2. Recommend that it be communicated to the Board to be reviewed, received, and filed.

BACKGROUND

In accordance with LAFPP's Three-Year Business Plan (2014-2017), Internal Audit Section (IAS) is responsible for the Subsidy Program Audit Project, which consists of four audits relating to each of the four associations that administer health benefits. The overarching objective of these subsidy program audits is to evaluate whether LAFPP's subsidy program is effective, efficient, and provides expected results. This is the third of four subsidy program audits.

DISCUSSION

IAS conducted the Subsidy Program Audit – Health Plans Administered by the United Firefighters of Los Angeles City (UFLAC) in accordance with the calendar year 2014 Annual Audit Plan and Forecast. The specific objectives examined in this audit were to determine whether 1) LAFPP accurately paid subsidies, and 2) UFLAC provided health insurance coverage to those members who received subsidies.

IAS concluded that LAFPP's subsidy program for health plans administered by UFLAC was effective and provided expected results. LAFPP accurately paid subsidies to UFLAC on behalf of members based on their eligibility, and UFLAC provided health insurance coverage to members for whom subsidies were received.

LAFPP and UFLAC managements agreed with the findings and suggestions. UFLAC management agreed to implement suggestions to document dependent eligibility verification policies and to perform periodic dependent verification audits.

BUDGET

There is no budget impact associated with this report.

This report was prepared by:
James Yeung
Internal Auditor IV
Internal Audit Section

RPC:EJK:JY

Attachment – Subsidy Program Audit – Health Plans Administered by the United Firefighters
of Los Angeles City



LOS ANGELES FIRE AND POLICE PENSIONS

To Serve Those Who Protect

"Our mission is to advance the health and retirement security of those who dedicate their careers and risk their lives to protect the people of Los Angeles."

SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE UNITED FIREFIGHTERS OF LOS ANGELES CITY (UFLAC) (IAS No. 11-01D)

January 2015

**SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY
THE UNITED FIREFIGHTERS OF LOS ANGELES CITY
January 2015
(IAS No. 11-01D)**

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**SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY
THE UNITED FIREFIGHTERS OF LOS ANGELES CITY**

**January 2015
(IAS No. 11-01D)**

INTRODUCTION

Pursuant to Internal Audit Section’s (IAS) calendar year 2014 Annual Audit Plan and Forecast, IAS conducted the Subsidy Program Audit – Health Plans Administered by the United Firefighters of Los Angeles City (UFLAC).

This performance audit was conducted in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. IAS has determined that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

IAS thanks the staffs of Medical and Dental Benefits Section (MDB) and UFLAC for their cooperation and assistance throughout the course of this audit.

History

Pursuant to Administrative Code Sections 4.1151 and 4.1152, the Los Angeles Fire and Police Pensions (LAFPP) Board of Commissioners (Board) is responsible for administering a program (hereafter referred to as the “subsidy program”) whereby retired members and eligible beneficiaries shall have subsidy payments made on their behalf for healthcare insurance. In March 1975 when the Los Angeles City Council adopted Ordinance No. 147,014 authorizing subsidy payments to be made by LAFPP toward health insurance premiums for eligible retired members, service organizations including UFLAC, Los Angeles Police Relief Association (LAPRA), and Los Angeles Fire Relief Association (LAFRA) had existing contracts with recognized health insurance carriers to provide healthcare insurance for both active and retired members. In April 1975, the Board approved a health insurance resolution authorizing LAFPP to pay subsidy amounts directly to the service organizations that contracted with the insurance carriers. Section 4.1164 of the Administrative Code authorized payment of dental subsidies towards dental premiums for retired members beginning in January 2002.

Prior IAS Audits of Subsidy Program

IAS completed the subsidy program audits of health plans administered by LAFRA and LAPRA in March 2012 and March 2013, respectively. The underlying objective of these two audits was to evaluate whether LAFPP's subsidy program was efficient, effective, and provides expected results. Specific objectives examined were to determine whether 1) the subsidy program was administered in accordance with the Los Angeles City Charter, Administrative Code, and Board resolutions; 2) LAFPP's operational processes provide adequate controls over subsidy administration; 3) subsidies were accurately paid on behalf of eligible members; and, 4) members for whom LAFPP paid subsidies received health care coverage.

The subsidy program audits of health plans administered by LAPRA and LAFRA both concluded that the subsidy program was generally effective and provided expected results. They found that LAFPP administered the subsidy program with adequate controls that were in accordance with Los Angeles City Charter, Administrative Code, and Board resolution requirements, and subsidies were accurately paid on behalf of eligible members and beneficiaries. Financial and billing records showed that members for whom LAFPP paid subsidies were covered under the respective LAFRA and LAPRA health plans.

A notable observation from the LAFRA audit was that the subsidy program lacked Board and senior management established objectives to guide development of operating policies designed to achieve management's desired goals for the subsidy program. Additionally, both audits noted that LAFPP lacked formal dependent eligibility verification policies and should develop such policies collaboratively with the associations to reduce the risks and costs associated with ineligible dependents.

This subsidy program audit of health plans administered by UFLAC is the third of four subsidy program audits scheduled in IAS' Annual Audit Plan and Forecast. The last remaining subsidy program audit related to health plans administered by the Los Angeles Police Protective League (LAPPL) is currently underway.

Background

UFLAC is the labor organization that represents Los Angeles Fire Department firefighters and emergency medical personnel. In addition to employment representation, UFLAC provides its active and retired members with medical, dental, life, and disability benefits, including the following medical and dental plans.

Subsidy Program Audit – Health Plans Administered by UFLAC
(IAS No. 11-01D)

TABLE NO. 1 – MEDICAL AND DENTAL PLANS OFFERED BY UFLAC

| Medical | Dental |
|---|---|
| Anthem Blue Cross Preferred Provider Organization (PPO) | MetLife PPO |
| Anthem Blue Cross Health Maintenance Organization (HMO) | MetLife HMO |
| | MetLife Network Direct Reimbursement ¹ |
| | UFLAC Direct Reimbursement ¹ |

For the July 2014 subsidy roll, LAFPP paid \$7,866,977 and \$305,968 in total medical and dental subsidies, respectively, including \$158,115 (2%) and \$85,161 (28%) to UFLAC.

TABLE NO. 2 – MEDICAL SUBSIDY FOR JULY 30, 2014

| Association | Medical Subsidy | Dental Subsidy | Total Subsidy |
|--------------|--------------------|------------------|--------------------|
| UFLAC | \$158,115 (2%) | \$85,161 (28%) | \$243,276 (3%) |
| Others | \$7,708,862 (98%) | \$220,807 (72%) | \$7,929,669 (97%) |
| TOTAL | \$7,866,977 | \$305,968 | \$8,172,945 |

Audit Objectives, Scope, and Methodology

To evaluate whether LAFPP’s subsidy program for health plans administered by UFLAC is effective and provides expected results, IAS examined the following objectives:

- Objective No. 1 – Subsidies are Accurately Paid on Behalf of Eligible Members in Accordance with the Los Angeles City Charter, Administrative Code, and Board Resolution Requirements
- Objective No. 2 – Members for Whom LAFPP Paid Subsidies Received Health Care Coverage from UFLAC

The scope of this audit was to evaluate medical and dental subsidies paid to UFLAC on behalf of members in July 2014 for August 2014 health care coverage. From this population, IAS randomly selected a statistically valid sample of 61 members and performed audit procedures to validate the accuracy of subsidies LAFPP paid to UFLAC on behalf of these members. IAS also reviewed UFLAC records that included healthcare insurance contracts, vendor invoices, payment records, and insured eligibility lists to confirm evidence of coverage.

¹ The MetLife Network and UFLAC direct reimbursement dental plans are self-funded by UFLAC.

Subsidy Program Audit – Health Plans Administered by UFLAC
(IAS No. 11-01D)

The objectives in the 2012 LAFRA and 2013 LAPRA audits to determine whether 1) the subsidy program was administered in accordance with the Los Angeles City Charter, Administrative Code, and Board resolutions and, 2) LAFPP's operational processes provide adequate controls over subsidy administration were not re-examined in this audit as no significant issues were identified within these objectives. These prior audits concluded that LAFPP's policies and processes conformed to requirements of the authoritative documents and adequately controlled subsidy administration. Additionally, this audit did not analyze benefits coverage of UFLAC's medical and dental plans or its value relative to the subsidies paid.

MANAGEMENT RESPONSE

On February 6, 2015, IAS met with LAFPP management who expressed agreement with the findings and suggestions.

On February 10, 2015 IAS met with UFLAC management who expressed agreement with the findings and suggestions. UFLAC also submitted a written response (see Attachment 1).

SUMMARY AUDIT RESULTS

LAFPP's subsidy program for health plans administered by UFLAC was generally effective and provided expected results. LAFPP accurately paid subsidies to UFLAC on behalf of eligible members in accordance with Charter, Administrative Code, and Board resolution requirements and UFLAC provided healthcare coverage for all members for which LAFPP paid subsidies.

As with the LAFRA and LAPRA subsidy program audits, there were opportunities to improve dependent eligibility verification (DEV). These prior audits both noted that LAFPP lacked formal DEV policies, and LAFPP historically has relied on the associations to verify dependent eligibility. Based on IAS' interviews with UFLAC staff, UFLAC appeared to have comprehensive practices for verifying dependent eligibility. These practices included new enrollment documentation requirements as well as various post enrollment procedures to confirm the dependent's continued eligibility. However, these practices were not documented or formalized in UFLAC's written policies. Formalization of UFLAC's practices to define DEV requirements and responsibilities would allow both UFLAC and LAFPP to better manage liability and costs associated with potentially ineligible dependents.

LAFPP is currently developing its formal DEV policies. LAFPP is also working with UFLAC to define DEV responsibilities in its discussions to renew the Operations Agreement, and IAS

welcomes the collaboration by both UFLAC and LAFPP in sharing responsibilities to mitigate the shared risks stemming from coverage of ineligible dependents.

DETAILED AUDIT PROCEDURES, FINDINGS, AND RECOMMENDATIONS

Objective No. 1 – Subsidies are Accurately Paid on Behalf of Eligible Members in Accordance with the Los Angeles City Charter, Administrative Code, and LAFPP’s Board Resolution Requirements

Audit Procedures

IAS randomly selected a statistically valid sample of 61 health subsidy payments paid to UFLAC in July 2014 to confirm the eligibility of the recipients and that the subsidy amounts paid were in accordance with the authoritative documents.^{2,3}

For each selected subsidy payment, IAS performed the following tests:

1. Verified in OnPoint the following member information essential to accurately computing the subsidy amount: date of birth, membership date, and retirement date.⁴
2. Recalculated the member’s years of service.
3. Recalculated the member’s age as of 7/1/2014 to determine the member’s eligibility for subsidy and Medicare.
4. Verified the member’s enrollment in a Medicare covered plan, if eligible.
5. Verified premium for selected medical code and plan to the premium rate sheet.
6. Verified premium for selected dental code and plan, if applicable, to the premium rate sheet.
7. Re-computed and verified the medical subsidy amount based on the member’s tier, years of service, age, and selected medical plan.
8. Re-computed and verified the dental subsidy amount, if applicable, based on the member’s tier, years of service, age, and selected dental plan.
9. Recomputed the member’s medical deduction amount based on the verified premium and subsidy amounts.
10. Recomputed the member’s dental deduction amount, if applicable, based on the verified premium and subsidy amounts.
11. If enrolled in a two-party or family plan, reviewed documents to verify the eligibility of dependents covered under the member’s medical plan.⁵

² The sample was computed to achieve a confidence level of 95% with a +/-4 error rate.

³ See Administrative Code Sections 4.1154, 4.1161, 4.1164, and Board Resolution 9320.

⁴ OnPoint is LAFPP’s pension administration system.

⁵ Dental subsidies are for member coverage only and do not cover beneficiaries or dependents.

Subsidy Program Audit – Health Plans Administered by UFLAC
(IAS No. 11-01D)

Test Results

Medical and dental subsidy amounts were accurately computed and paid in accordance with the City Charter, Administrative Code, and Board Resolution requirements based on the member's confirmed tier, years of service, age, and eligibility. See discussion of dependent eligibility below. Medical and dental deduction amounts, if any, were accurately computed based on the confirmed subsidy and premium amounts.

Finding

There were 43 members in the sample who were enrolled in plans covering one or more dependents. For nine (21%) of these 43, UFLAC did not have the documentation to support the eligibility of one or more of the covered dependents. The cause of the missing DEV documentation for these members could not be definitively determined, but inconsistency in document retention practices relating to older files was cited by UFLAC as a possible cause.

LAFPP also did not have DEV documentation for these nine members due to the lack of formal DEV policies cited in the LAFRA and LAPRA audits, and has historically relied on UFLAC's DEV process. LAFPP is currently in the process of developing formal DEV policies as well as discussing the provisions of a successor Operations Agreement with UFLAC.⁶ LAFPP and UFLAC have proposed a collaborative approach to DEV whereby UFLAC, as the plan provider, will verify the eligibility of enrolled dependents, and LAFPP will share marital status change information with UFLAC to identify potentially ineligible spouses or domestic partners.

As LAFPP relies on UFLAC to verify dependent eligibility, IAS interviewed UFLAC personnel to obtain an overview of UFLAC's DEV practices. UFLAC representatives stated that dependent eligibility verification is required for all new enrollments and life event changes (e.g. marriages, births, and adoptions). The only exception is for members who enroll while in the drill tower academy. UFLAC offers drill tower recruits a one-time enrollment opportunity, and DEV documentation is not required at the time of enrollment. In addition to these practices for new enrollments, UFLAC stated that it also employs other controls to ensure the continued eligibility of dependents. These include a system flag that alerts staff of child dependents who attain the age of 26, an affidavit requirement for members covering child dependents age 21-26 certifying the dependent's enrollment in a qualifying school, and a medical certification every five years of continued disability for disabled dependents. IAS did not test these controls.

Based on these discussions with UFLAC staff, UFLAC appeared to have a comprehensive system of controls to ensure the eligibility of dependents at the initial enrollment and as well as for continued post-enrollment eligibility. These DEV practices, however, were not written and

⁶ The Operations Agreement between LAFPP and UFLAC governs the operational terms relating to subsidy payments and healthcare coverage.

Subsidy Program Audit – Health Plans Administered by UFLAC
(IAS No. 11-01D)

formalized in UFLAC’s policies and procedures, which is important to define DEV requirements and responsibilities and help ensure accountability and consistency. To allow both UFLAC and LAFPP to better manage liability and costs arising from coverage of ineligible dependents, IAS suggests the following improvement opportunities to UFLAC’s DEV process:

- UFLAC should formalize its DEV practices by documenting them in its policies and procedures; and,
- UFLAC should periodically audit member files to ensure DEV documentation completeness and compliance with its DEV policies.

Objective No. 2 – Members for Whom LAFPP Paid Subsidies Received Health Care Coverage from UFLAC

Audit Procedures

To determine whether members for whom LAFPP paid health subsidies in the July 2014 subsidy roll were provided medical and dental insurance coverage for August 2014, IAS performed the following tests:

1. Reviewed invoices billed to UFLAC for August 2014 medical and dental insurance coverage and verified payments to the insurance carriers.
2. Reviewed and agreed the invoice totals to the insured medical and dental eligibility lists for August 2014.
3. Verified the premiums on the insured eligibility lists to the policy contracts.
4. Matched all unique member identifiers on the July 2014 medical and dental subsidy lists to the August 2014 insured medical and dental eligibility lists.

Test Results

Insurance carrier invoices for August 2014 medical and dental coverage were fully paid by UFLAC. These invoices were supported by insured eligibility lists, and the vendor rates for the billed plans agreed to the policy contracts. Finally, IAS matched all unique member identifiers on LAFPP’s medical and dental subsidy lists to UFLAC’s respective insured eligibility lists without exception.



UNITED FIREFIGHTERS of LOS ANGELES CITY

Local 112 IAFF AFL-CIO-CLC

Erin Kenney
Los Angeles Fire and Police Pensions
Internal Audit Division
360 E. Second Street, Suite 400
Los Angeles, CA 90012

RE: The Subsidy Program Audit for the UFLAC Health Plans

March 9, 2015

Dear Erin:

On March 4, 2015 the members of the Board of Trustees for the United Firefighters of Los Angeles City Local 112 Benefit Plans "UFLAC Trustees" reviewed the Report provided by LAFPP for the Subsidy Program Audit conducted by the LAFPP Internal Audit Division. The UFLAC Trustees are in agreement with the findings and recommendations of the LAFPP Audit.

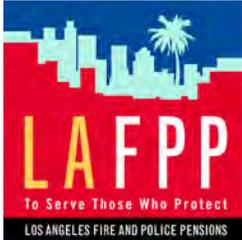
The UFLAC Trustees have reviewed the recommended improvement opportunities presented in the LAFPP Audit Report, specifically for providing documentation of all DEV policies and procedures, as well as performing periodic DEV audits. The Dependent Eligibility Verification Policies and Procedures are documented in the Plan Document for the Life Insurance Trust. Additionally, UFLAC conducts an audit of DEV for all dependents between the age of 19 and 26 every year, and every five years for permanent dependents.

Thank you for presenting the Audit Report to the Trustees and appreciate the opportunity to respond to the findings and recommendations. Please feel free to contact me if you have questions or need additional information.

Kind regards,

Brian Hishinuma
UFLAC Treasurer





DEPARTMENT OF FIRE AND POLICE PENSIONS

360 East Second Street, Suite 400
Los Angeles, CA 90012
(213) 978-4545

REPORT TO THE AUDIT COMMITTEE

DATE: APRIL 16, 2015 **ITEM:** 2

FROM: RAYMOND P. CIRANNA, GENERAL MANAGER

SUBJECT: SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE
LOS ANGELES POLICE PROTECTIVE LEAGUE; AND POSSIBLE COMMITTEE
ACTION

RECOMMENDATIONS

That the Audit Committee:

1. Review the Subsidy Program Audit – Health Plans Administered by the Los Angeles Police Protective League (LAPPL), and;
2. Recommend that it be communicated to the Board to be reviewed, received, and filed.

BACKGROUND

In accordance with LAFPP's Three-Year Business Plan (2014-2017), Internal Audit Section (IAS) is responsible for the Subsidy Program Audit Project, which consists of four audits relating to each of the four associations that administer health benefits. The overarching objective of these subsidy program audits is to evaluate whether LAFPP's subsidy program is effective, efficient, and provides expected results. This is the last of four subsidy program audits.

DISCUSSION

IAS conducted the Subsidy Program Audit – Health Plans Administered by the Los Angeles Police Protective League (LAPPL) in accordance with the calendar year 2014 Annual Audit Plan and Forecast. The specific objectives examined in this audit were to determine whether 1) LAFPP accurately paid dental subsidies, and 2) LAPPL provided dental insurance coverage to those members who received dental subsidies.

IAS concluded that LAFPP's subsidy program for health plans administered by LAPPL was effective and provided expected results. LAFPP accurately paid dental subsidies to LAPPL on behalf of members based on their eligibility, and LAPPL provided dental insurance coverage to members for whom dental subsidies were received.

LAFPP management and LAPPL management each agreed with the audit conclusions and results.

BUDGET

There is no budget impact associated with this report.

This report was prepared by:

James Yeung
Internal Auditor IV
Internal Audit Section

RPC:EJK:JY

Attachment – Subsidy Program Audit – Health Plans Administered by the Los Angeles Police Protective League



LOS ANGELES FIRE AND POLICE PENSIONS

To Serve Those Who Protect

*"Our mission is to advance the health and retirement security
of those who dedicate their careers and risk their lives to serve the people of Los Angeles."*

SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE LOS ANGELES POLICE PROTECTIVE LEAGUE (IAS No. 11-01C)

March 2015

**SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY
THE LOS ANGELES POLICE PROTECTIVE LEAGUE
March 2015
(IAS No. 11-01C)**

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**SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY
THE LOS ANGELES POLICE PROTECTIVE LEAGUE**

**March 2015
(IAS No. 11-01C)**

INTRODUCTION

Pursuant to Internal Audit Section’s (IAS) calendar year 2014 Annual Audit Plan and Forecast, IAS conducted the Subsidy Program Audit – Health Plans Administered by the Los Angeles Police Protective League (LAPPL).

This performance audit was conducted in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. IAS has determined that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

IAS thanks the staffs of Medical and Dental Benefits Section (MDB) and LAPPL for their cooperation and assistance throughout the course of this audit.

History

Pursuant to Administrative Code Sections 4.1151 and 4.1152, the Los Angeles Fire and Police Pensions (LAFPP) Board of Commissioners (Board) is responsible for administering a program (hereafter referred to as the “subsidy program”) whereby retired members and eligible beneficiaries shall have subsidy payments made on their behalf for healthcare insurance. In March 1975 when the Los Angeles City Council adopted Ordinance No. 147,014 authorizing subsidy payments to be made by LAFPP toward health insurance premiums for eligible retired members, service organizations including the Los Angeles Police Relief Association (LAPRA), Los Angeles Fire Relief Association (LAFRA), and United Firefighters of Los Angeles City (UFLAC) had existing contracts with recognized health insurance carriers to provide healthcare insurance for both active and retired members. In April 1975, the Board approved a health insurance resolution authorizing LAFPP to pay subsidy amounts directly to the service organizations that contracted with the insurance carriers. Section 4.1164 of the Administrative Code authorized payment of dental subsidies towards dental premiums for retired members beginning in January 2002.

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IAS completed the subsidy program audits of health plans administered by LAFRA and LAPRA in March 2012 and March 2013, respectively. The underlying objective of these two audits was to evaluate whether LAFPP's subsidy program was efficient, effective, and provided expected results. Specific objectives examined were to determine whether 1) the subsidy program was administered in accordance with the Los Angeles City Charter, Administrative Code, and Board resolutions; 2) LAFPP's operational processes provide adequate controls over subsidy administration; 3) subsidies were accurately paid on behalf of eligible members; and, 4) members for whom LAFPP paid subsidies received health care coverage.

The subsidy program audits of health plans administered by LAPRA and LAFRA both concluded that the subsidy program was generally effective and provided expected results. They found that LAFPP administered the subsidy program with adequate controls that were in accordance with Los Angeles City Charter, Administrative Code, and Board resolution requirements, and subsidies were accurately paid on behalf of eligible members and beneficiaries. Financial and billing records showed that members for whom LAFPP paid subsidies were covered under the respective LAFRA and LAPRA health plans.

A notable observation from the LAFRA audit was that the subsidy program lacked Board and senior management established objectives to guide development of operating policies designed to achieve management's desired goals for the subsidy program. Additionally, both audits noted that LAFPP lacked formal dependent eligibility verification policies and should develop such policies collaboratively with the associations to reduce the risks and costs associated with ineligible dependents.

This subsidy program audit of health plans administered by LAPPL is the last of four subsidy program audits scheduled in IAS' Annual Audit Plan and Forecast. The subsidy program audit of health plans administered by UFLAC is being performed concurrently.

Background

LAPPL is the bargaining organization that represents Los Angeles police officers of the ranks of lieutenant and below. In addition to representing members on employment matters, LAPPL provides its members with dental, life, and disability benefits. LAFPP pays dental subsidies to LAPPL on behalf of retired members enrolled in the Delta PPO or Deltacare HMO plans administered by LAPPL. LAPPL does not offer medical coverage.

LAPPL received \$79,149 in dental subsidies for July 2014, which represented 26% of the \$305,968 total dental subsidies paid by LAFPP for the month.

Audit Objectives, Scope, and Methodology

To evaluate whether LAFPP's subsidy program for health plans¹ administered by LAPPL is effective and provides expected results, IAS examined the following objectives:

- Objective No. 1 – Subsidies are Accurately Paid on Behalf of Eligible Members in Accordance with the Los Angeles City Charter and Administrative Code Requirements
- Objective No. 2 – Members for Whom LAFPP Paid Subsidies Received Health Care Coverage from LAPPL

The scope of this audit was to evaluate dental subsidies paid to LAPPL on behalf of members in July 2014 for August 2014 dental care coverage. From this population, IAS selected a random sample of 50 members and performed audit procedures to validate the accuracy of subsidies LAFPP paid to LAPPL on behalf of these members. IAS also reviewed LAPPL records that included dental care insurance contracts, vendor invoices, and insured eligibility lists to confirm evidence of coverage.

The objectives in the 2012 LAFRA and 2013 LAPRA audits to determine whether 1) the subsidy program was administered in accordance with the Los Angeles City Charter, Administrative Code, and Board resolutions; and, 2) LAFPP's operational processes provide adequate controls over subsidy administration were not re-examined in this audit as no significant issues were identified within these objectives. These prior audits concluded that LAFPP's policies and processes conformed to requirements of the authoritative documents and adequately controlled subsidy administration. Additionally, this audit did not analyze benefits coverage of LAPPL's dental plans or its value relative to the subsidies paid.

MANAGEMENT RESPONSE

On April 2, 2015, LAFPP management agreed with the audit conclusions and results.

On April 3, 2015, IAS met with LAPPL management who agreed with the audit conclusions and results.

¹ Health plans include medical and dental plans. LAPPL currently only offers dental plans. Therefore, references to health plans are specific to LAPPL's dental plans.

SUMMARY AUDIT RESULTS

LAFPP's subsidy program for health plans administered by LAPPL was generally effective and provided expected results. LAFPP accurately paid subsidies to LAPPL on behalf of eligible members in accordance with the Charter and Administrative Code, and LAPPL provided dental coverage for all members for which LAFPP paid subsidies.

No recommendations were made in this audit.

DETAILED AUDIT PROCEDURES, FINDINGS, AND RECOMMENDATIONS

Objective No. 1 – Subsidies are Accurately Paid on Behalf of Eligible Members in Accordance with the Los Angeles City Charter and Administrative Code Requirements

Audit Procedures

IAS selected a random sample of 50 dental subsidy payments paid to LAPPL in July 2014 to confirm the eligibility of the recipients and that the subsidy amounts paid were in accordance with the authoritative documents.²

For each selected subsidy payment, IAS performed the following tests:

1. Verified in OnPoint the following member information essential to accurately computing the subsidy amount: date of birth, membership date, and retirement date.³
2. Recalculated the member's years of service.
3. Verified premium for selected dental code and plan to the premium rate sheet.
4. Re-computed and verified the dental subsidy amount based on the member's verified years of service, age, and selected dental plan.
5. Recomputed the member's dental deduction amount, if applicable, based on the verified premium and subsidy amounts.

Test Results

Dental subsidy amounts were accurately computed and paid in accordance with the City Charter and Administrative Code requirements based on the member's confirmed years of service, age, and eligibility. Dental deduction amounts, if any, were accurately computed based on the confirmed subsidy and premium amounts.

² See Administrative Code Sections 4.1154, 4.1161, and 4.1164.

³ OnPoint is LAFPP's pension administration system.

Objective No. 2 – Members for Whom LAFPP Paid Subsidies Received Health Care Coverage from LAPPL

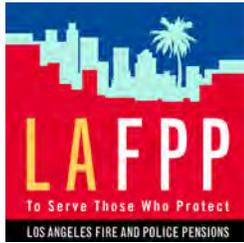
Audit Procedures

To determine whether members for whom LAFPP paid dental subsidies in the July 2014 subsidy roll were provided dental insurance coverage for August 2014, IAS performed the following tests:

1. Matched all unique member identifiers on the July 2014 dental subsidy list to detail invoices billed to LAPPL for August 2014 dental insurance coverage
2. Verified the invoiced premiums to the policy contracts.

Test Results

IAS matched all unique member identifiers on LAFPP's dental subsidy list to LAPPL's August 2014 detail invoices to confirm evidence of coverage. The billed premiums on these invoices were agreed to policy contracts.



DEPARTMENT OF FIRE AND POLICE PENSIONS

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REPORT TO THE AUDIT COMMITTEE

DATE: APRIL 16, 2015 **ITEM:** 3

FROM: RAYMOND P. CIRANNA, GENERAL MANAGER

SUBJECT: CONTRACT AMENDMENT WITH BROWN ARMSTRONG ACCOUNTANCY CORPORATION FOR FINANCIAL AUDIT SERVICES; AND POSSIBLE COMMITTEE ACTION

RECOMMENDATION

That the Audit Committee recommend that the Board execute a contract amendment with Brown Armstrong Certified Public Accountants (Brown Armstrong) to extend the contract for an additional one-year period, and at an amount not to exceed \$79,568.00 to provide financial statements auditing services consistent with the current contract.

BACKGROUND

On April 20, 2012, as a result of a Request for Proposal (RFP) process, the Board approved a three-year contract with Brown Armstrong for annual financial auditing services. The contract will expire on July 18, 2015.

DISCUSSION

LAFPP and the City are completing implementation of Governmental Accounting Standards Board (GASB) Statements No. 67 (*Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25*) and No. 68 (*Accounting and Financial Reporting for Pension Plans*) this year. Staff believes it is advantageous to keep the same financial team in place to provide stability and to ensure smooth implementation of these financial statements requirements. Brown Armstrong has demonstrated a high quality of professional work and has been responsive to LAFPP during the course of the current contract.

Brown Armstrong proposes fees for services for the one-year extension at the same rate, \$74,568.00, as charged for services rendered for the prior fiscal year ending June 30, 2014. Staff considers the proposed fees to be appropriate and recommends a one-year contract extension.

BUDGET

Costs for these services are included in the proposed 2015-16 fiscal year budget.

This report was prepared by:

Erin J. Kenney
Departmental Audit Manager
Internal Audit Section

RPC:EJK